



## The Effect of Profitability, Leverage, and Transfer Pricing on Tax Avoidance, with Company Size as a Moderating Variable (For Food and Beverage Companies on the IDX, 2020–2024)

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### ABSTRACT

This study aims to empirically demonstrate the influence of profitability, leverage, transfer pricing, and company size on tax avoidance. Furthermore, it also demonstrates that company size moderates the relationship between profitability, leverage, and transfer pricing with tax avoidance. This study was conducted on 70 primary consumer sector companies consistently listed on the Indonesia Stock Exchange (IDX) for the 2020-2024 period. Moderating Regression Analysis (MRA) was used as the analytical method. The results of the hypothesis testing revealed that the higher a company's profit-generating ability, the higher its tax avoidance practices. Our research found that leverage, transfer pricing policies, and company size did not influence changes in the company's tax avoidance practices. Furthermore, our research found that company size did not moderate the relationship between profitability, leverage, and transfer pricing with tax avoidance practices in primary consumer sector companies listed on the Indonesia Stock Exchange.

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## INTRODUCTION

Taxes play a very important role in a country's development. In Indonesia, more than 80% of state revenue is derived from taxes (Anggraeni & Oktaviani, 2021). Based on the State Revenue Realization Reports for 2021–2023 published by the Central Statistics Agency (Badan Pusat Statistik), the proportion of tax revenue consistently exceeded 75%. This fact indicates that taxes are the most significant source of state revenue compared to other sources. The high contribution of taxes reflects Indonesia's strong dependence on tax revenue as the backbone of state finance. This dependence highlights the dominant role of taxes in supporting national fiscal sustainability.

The sectors that contribute substantially to tax revenue are predominantly business entities or corporations. However, government efforts to maximize tax revenue often conflict with corporate objectives as taxpayers. For companies, taxes are considered a financial burden, resulting in differing interests between the tax authority and corporations. The tax authority, as the principal, seeks to optimize tax revenue, while companies, as agents, aim to minimize the amount of taxes paid to the state (Sriyono & Andesto, 2022).

Companies also attempt to manage the amount of tax they are required to pay, given that taxes do not provide direct benefits or counter-performance to taxpayers. According to agency theory, these differing interests may motivate companies to engage in tax planning strategies, which may include tax avoidance, in order to reduce tax burdens and maximize profits (Isnaini & Wahyuningtyas, 2022).

Tax avoidance refers to efforts undertaken by taxpayers to reduce tax liabilities through the exploitation of loopholes in tax regulations. These efforts are conducted legally and safely for taxpayers, as they do not violate existing laws. The techniques and methods employed typically focus on gray areas within tax regulations that allow for the reduction of taxable income (Sriyono & Andesto, 2022). Although not illegal, such practices often operate at the boundaries of tax provisions. Tax avoidance enables taxpayers to lawfully reduce tax obligations, but it requires an in-depth understanding of the relevant legal frameworks (Aprianti et al., 2024).

Tax avoidance practices also occur in Indonesia, with various companies implementing such strategies in their business activities. According to a report by the Tax Justice Network, Indonesia suffers losses of approximately USD 4.86 billion annually due to tax avoidance, equivalent to around IDR 68.7 trillion based on the rupiah exchange rate. Most of this amount, approximately IDR 67.6 trillion, originates from corporate tax avoidance practices in Indonesia. The Director General of Taxes at the Ministry of Finance, Suryo Utomo, added that tax avoidance often occurs due to transactions between related parties, both domestically and internationally (<https://nasional.kontan.co.id>, 2020).

The case of PT Bentoel International Investama is an example of tax avoidance in Indonesia. The Tax Justice Network on Wednesday, May 8, 2019 reported that British American Tobacco (BAT) allegedly committed tax avoidance using the name of PT Bentoel International Investama, the leading

tobacco company in Indonesia, as if taking over BAT's debt obligations between 2013 and 2015 using tax regulations in the Netherlands, Rothmans Far East BV, this action had an impact on increasing production costs, so that profits that were previously large became smaller, this action avoided RMBA from fulfilling its tax obligations to the Indonesian government (<https://nasional.kontan.co.id>, 2019).. One factor that can influence tax avoidance is profitability. Profitability is a factor that encourages management to engage in tax avoidance, as it reflects a company's performance in generating profits through efficient asset utilization, commonly measured by Return on Assets (ROA). A positive ROA indicates the company's ability to generate profits from its assets, where a higher ROA reflects better corporate performance. Since profit forms the basis for taxation, higher corporate profits lead to higher tax burdens that must be paid (Isnaini & Wahyuningtyas, 2022).

Previous studies examining the effect of profitability on tax avoidance conducted by (Tri Wahyuni & Djoko Wahyudi, 2021), (Isnaini & Wahyuningtyas, 2022), and (Darsani & Sukartha, 2021) show that profitability has a positive effect on tax avoidance. However, these findings contradict studies by (Rifai & Atiningsih, 2019), (Jamaludin, 2020), and (Sriyono & Andesto, 2022), which indicate that profitability has a negative effect on tax avoidance.

Another factor influencing tax avoidance is leverage. Leverage describes a company's ability to meet both short-term and long-term debt obligations and indicates the proportion of financing derived from debt. Companies use debt to finance operational activities and investments. However, debt also generates additional costs in the form of interest expenses, which are deductible expenses that reduce taxable income. As a result, fiscal profit decreases, ultimately lowering the amount of tax payable by the company.

Previous research on leverage and its relationship with tax avoidance has produced mixed results. Studies by (Widodo & Wulandari, 2021), (Widyastuti et al., 2022), (Noviyani & Damayanty, 2024), (Aprianti et al., 2024), (Aprilia et al., 2023), and (Megarani et al., 2019) find that leverage has a significant effect on tax avoidance. Conversely, studies by (Jamaludin, 2020), (Darsani & Sukartha, 2021), (Tunnisa et al., 2024), and (Fadillah et al., 2024) report that leverage does not significantly affect tax avoidance. This inconsistency highlights differing perspectives on the role of leverage in shaping corporate tax policies. Therefore, further research is needed to clarify the influence of leverage on tax avoidance.

Another factor affecting tax avoidance is transfer pricing. Transfer pricing is a policy determined by companies to set transfer prices for transactions. It is a pricing method commonly used by multinational companies, where transaction prices can be structured to achieve corporate objectives (Hidayat & Wijaya, 2022). Transfer pricing practices may reduce a country's tax revenue when companies shift tax burdens by lowering selling prices to affiliated companies and transferring profits to related entities. This practice results in a lower tax burden for the parent company (Alfarizi, 2021).

Previous studies by (Alfarizi, 2021), (Wijaya & Hidayat, 2021), and (Ramdhani et al., 2021) indicate that transfer pricing has a positive effect on tax avoidance. However, contrasting findings by (Ghasani et al., 2021) and (Adella & Yuniar Larasati, 2021) show that transfer pricing does not affect tax avoidance. This inconsistency suggests that transfer pricing may not always play a direct role in determining tax avoidance strategies across all companies.

This study examines issues related to tax avoidance in manufacturing companies within the consumer goods sector. The manufacturing consumer goods sector was selected because companies in this sector generally experience continuous sales growth, and high demand levels can enhance profitability, which in turn increases tax obligations. This trend is reflected in the improving performance of the manufacturing sector, as indicated by GDP growth, investment realization, export achievements, labor absorption, and the Manufacturing Purchasing Managers' Index (PMI) ([www.kemenperin.go.id](http://www.kemenperin.go.id), 2022).

In addition to the identified factors influencing tax avoidance, this study also incorporates firm size as a moderating variable. Firm size is expected to strengthen or weaken the influence of independent variables on the dependent variable. Previous studies by (Sriyono & Andesto, 2022) and (Fadillah et al., 2024) indicate that firm size is often relevant as a moderating variable in related analyses. Therefore, including firm size as a moderating variable is expected to provide a more comprehensive understanding of how key factors influence companies' tendencies to engage in tax avoidance, offering deeper insights into the dynamics between independent variables and tax avoidance.

Firm size refers to the classification of companies based on various proxies such as total assets, profit levels, production capacity, and others, which categorize firms into small, medium, and large groups (Mulyati et al., 2019). Research by (Sormin, 2020) finds that firm size does not affect corporate tax avoidance, whereas studies by (Mulyati et al., 2019) and (Noviyani & Damayanty, 2024) indicate that firm size influences the level of tax avoidance. These findings suggest that larger firms tend to have a higher propensity to engage in tax avoidance, indicating that corporate scale may affect decisions related to tax strategies.

## LITERATURE REVIEW

### Agency Theory

Transfer pricing is a strategy used to avoid taxes. Its implementation aligns with the agency theory concept developed by Fama & Jensen (1983). Conflicts of interest between agents and principals encourage opportunistic behaviour in the form of expense manipulation to conceal business profits by exploiting legal regulations in other countries. Such behaviour is certain to benefit the agent and harm external parties.

According to Hery (2023), agency theory explains that agency relationships may lead to agency problems, arising from the separation of ownership and management functions. Such relationships can result in

information asymmetry, in which managers generally possess more information regarding the company's actual financial condition than the owners.

## **Hypothesis Development**

### **The Effect of Profitability on Tax Avoidance**

Kasmir (2019) states that profitability ratios are used to determine the extent of a company's profits. This ratio also indicates the level of efficiency of company management, which is determined by the profits obtained through investment funding and sales. One such ratio is ROA, which provides information on a company's ability to manage assets (Hery, 2023). This is in line with research by Isnaini & Wahyuningtyas (2022), Tri Wahyuni & Djoko Wahyudi (2021), and Darsani & Sukartha (2021), which shows that ROA has a positive effect on tax avoidance. A higher ROA means a higher net profit value, which, in turn, increases a company's desire to avoid taxes.

**H<sub>1</sub>:** Profitability has a positive effect on tax avoidance.

### **The Effect of Leverage on Tax Avoidance**

According to Aprianti et al. (2024), leverage is a metric used to determine the extent of a company's debt relative to its total capital. The higher a company's Debt-to-Equity Ratio (DER), the greater the interest expenses that must be paid, which reduces profits and, consequently, lowers the amount of tax payable.

The relationship between leverage and tax avoidance is relevant to agency theory. Companies act as agents who control information, allowing them to manage and disclose debt-related information to the government. Tax authorities can only receive this information and conduct limited verification. Therefore, when a company's leverage increases, firms may use leverage as a tool to engage in tax avoidance. This argument is supported by previous studies conducted by Noviyani and Damayanty (2024), Mohammad and Andesto (2025), Aprianti et al. (2024), Aprilia et al. (2023), Megarani et al. (2019), and Khomsiyah et al. (2021), which show that leverage has a significant positive effect on tax avoidance.

**H<sub>2</sub>:** Leverage has a positive effect on tax avoidance.

### **The Effect of Transfer Pricing on Tax Avoidance**

The Organisation for Economic Co-operation and Development (OECD) defines transfer pricing as the pricing of transactions conducted between affiliated companies, where the transfer price is set significantly lower than the market price. This practice occurs because companies assume flexibility in adopting principles that suit their interests. Transfer pricing practices are often carried out to minimize reported profits, increase production costs, or create the appearance of losses, thereby avoiding taxes on earned profits. As a result, the tax burden of the parent company becomes lower. The greater the extent of transfer pricing practices, the higher the level of tax avoidance undertaken by the company.

The findings of Shodiq et al. (2017) indicate that transfer pricing is one method used to avoid taxes, particularly because it involves the establishment of operations in different regions or countries with varying tax regulations. Studies by Alfarizi (2021), Hidayat and Wijaya (2022), and Chrisandy and Simbolon (2022) also conclude that transfer pricing has a positive effect on tax avoidance.  
**H<sub>3</sub>:** Transfer pricing has a positive effect on tax avoidance.

### **Firm Size Strengthens the Effect of Profitability on Tax Avoidance**

Firm size is an important parameter that reflects the operational scale and financial capacity of an organization. It can be measured using total assets, where firms with larger asset bases generally exhibit greater stability, stronger profit-generating capacity, and a higher ability to meet tax obligations (Kalbuana et al., 2020).

Research conducted by Sriyono and Andesto (2022) indicates that firm size strengthens the relationship between profitability and tax avoidance. This finding suggests that when companies experience increasing profits, they tend to engage in tax avoidance, partly because larger asset positions encourage higher operational expenses. Similar findings are reported by Sulaeman (2021) and Andesto et al. (2022), who state that firm size, measured by total assets, strengthens the relationship between profitability and tax avoidance in manufacturing companies listed on the Indonesia Stock Exchange.

**H<sub>4</sub>** Firm size strengthens the relationship between profitability and tax avoidance.

### **Firm Size Strengthens the Effect of Leverage on Tax Avoidance**

Large companies with adequate resources are able to utilize leverage strategies more effectively to optimize their financing structures, which in turn can influence interest expenses and potentially reduce corporate tax burdens (Mariani & Suryani, 2021).

Research conducted by Fadillah et al. (2024) states that firm size is able to strengthen the relationship between leverage and tax avoidance. This is possible because large companies tend to have sufficient resources to determine leverage policies that can be used to minimize tax burdens. Similar results are also found in the study by Sulaeman (2021), which indicates that firm size, as reflected in a company's asset position, increases the complexity of financing processes alongside debt obligations, thereby encouraging companies to engage more intensively in tax avoidance practices.

**H<sub>5</sub>:** Firm size strengthens the relationship between leverage and tax avoidance.

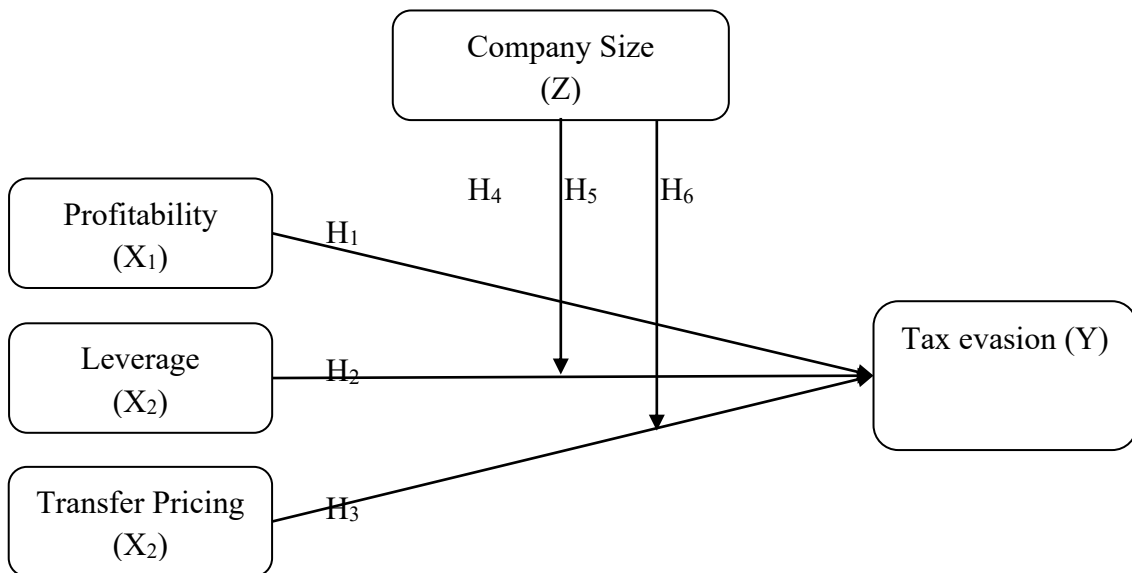
### **Firm Size Strengthens the Effect of Transfer Pricing on Tax Avoidance**

Transfer pricing is an approach used by companies for tax avoidance purposes, particularly by multinational corporations engaged in international transactions. Tax avoidance through transfer pricing can be carried out by setting

transaction prices between related companies in different countries or by exploiting economic, financial, and regulatory differences across jurisdictions (Hidayat & Wijaya, 2022).

Firm size plays a significant role in strengthening the effect of transfer pricing on tax avoidance through complex structural capabilities. Large business entities with multinational networks can exploit differences in tax regimes, manipulate transfer prices between related companies, optimize internal resources such as specialized tax teams and competent legal consultants, and develop sophisticated transfer pricing strategies to systematically and effectively minimize tax burdens across jurisdictions.

**H<sub>6</sub>:** Firm size strengthens the relationship between transfer pricing and tax avoidance.



**Figure 2.1 Framework of Thought**

## METHODE

Our current research is quantitative, attempting to statistically demonstrate the role of company size in strengthening the relationship between profitability, leverage, and transfer pricing, and tax avoidance. Our research used 70 primary consumer sector companies consistently listed on the Indonesia Stock Exchange (IDX) for the period 2020-2024. We only used companies that consistently generated profits and had consistent annual reports for the past five years. Data was obtained from the official website of the Indonesia Stock Exchange and the official websites of each company selected as a sample. In this research, we used three categories of variables: the dependent variable (tax avoidance); the moderating variable (company size); and the independent variables (profitability, leverage, and transfer pricing).

The data analysis technique used in our research is quantitative, using Moderating Regression Analysis. Testing is conducted through the stages of panel data regression analysis. The testing procedure includes descriptive analysis, panel data regression effect selection testing, consisting of Chow,

Hausman, and Langrange Multiplier tests, if necessary. The testing procedure is then continued with classical assumptions, including multicollinearity and heteroscedasticity testing. The regression equation model used in this research is as follows:

$$CETR = \alpha + \beta_1PROF_{it} + \beta_2LEV_{it} + \beta_3TP_{it} + \beta_4SIZE + e$$

$$CETR = \alpha + \beta_1PROF_{it} + \beta_2LEV_{it} + \beta_3TP_{it} + \beta_4SIZE + \beta_4SIZE_{it} + \beta_5SIZE*PROF + \beta_6SIZE*LEV + \beta_4SIZE*TP$$

The first equation model aims to test the direct influence of profitability, leverage, transfer pricing, and company size on tax avoidance. The second test, in addition to testing the direct influence, also aims to determine the extent to which company size moderates the relationship between profitability, leverage, and transfer pricing on tax avoidance. Prior to hypothesis testing, we also tested the model's accuracy using R<sup>2</sup> analysis and F-statistic testing. The hypothesis testing stage was conducted using the t-statistic test. If the t-statistic value is above the t-table value, the proposed hypothesis is accepted, and vice versa.

## RESEARCH RESULTS

### Descriptive Statistics

Before conducting more in-depth data analysis, a selection of the panel data regression effects was first performed. The results are presented as follows:

**Table 1. Descriptive Statistic**

	Min	Max	Mean	Std Deviasi
Tax evasion	0.060	0.622	0.215	0.080
Profitability	0.023	0.332	0.113	0.065
Leverage	0.100	10.703	0.883	1.337
Transfer Pricing	0.002	0.999	0.429	0.352
Company Size	11.829	14.304	12.744	0.734

Tax avoidance has a minimum value of 0.060 and a maximum value of 0.622, with a mean of 0.215. This average indicates that the level of tax avoidance among the sample companies falls within a relatively moderate category. Meanwhile, the standard deviation of 0.080 suggests that the variation in tax avoidance across companies is not substantial. Thus, most companies exhibit tax avoidance levels that do not differ significantly from the mean, although there are still several companies that demonstrate a higher tendency toward tax avoidance.

Profitability, measured using Return on Assets (ROA), has a minimum value of 0.023 and a maximum value of 0.332, with a mean of 0.113. These values indicate that, in general, companies are able to generate net profits at a reasonable proportion relative to their total assets. The standard deviation of 0.065 shows that variations in profitability among companies are relatively low, meaning that

most firms have similar profit-generating capabilities. This condition may reflect a stable industry environment and a relatively balanced level of competition. Leverage ranges from a minimum value of 0.100 to a maximum value of 10.703. The mean value of 0.883 indicates that, on average, companies operate at a moderate level of leverage. However, the relatively high standard deviation of 1.337 suggests significant differences in financing structures across companies. This wide variation in leverage reflects that some companies rely heavily on debt, while others adopt a more conservative approach to external financing. Such differences may imply varying levels of financial risk and tax burden management strategies.

Transfer pricing shows a minimum value of 0.002 and a maximum value of 0.999, with a mean of 0.429. This indicates that most companies engage in transactions with related parties at a relatively moderate proportion of total receivables. The standard deviation of 0.352 reveals a high degree of variation among companies. This substantial variation in the use of transfer pricing mechanisms may be attributed to differences in ownership structures, business models, and profit management strategies within corporate groups.

Firm size has a minimum value of 11.829 and a maximum value of 14.305, with a mean of 12.744. This indicates that the companies in the sample are generally classified as large firms. The standard deviation of 0.734 suggests that although there are differences in firm size, the variation is not extreme. In other words, most companies fall within a relatively similar size category, although a few firms possess significantly larger asset bases than others.

### Model Estimation Selection

To obtain an appropriate panel data regression model, model estimation tests were conducted. The results are presented in Table 2 below.

**Table 2. Model Estimation Selection**

Model	Estimasi	Chow	Hausman	Efek
Pers I	F-Chi <sup>2</sup> Prob	0.000***	0.000***	FEM
Pers II	F-Chi <sup>2</sup> Prob	0.000***	0.000***	FEM

Based on the estimation results for the first regression equation, the probability value of the Chow test is below 0.05, and consistent results are also obtained from the Hausman test. Therefore, the selected panel data analysis model for the first regression is the Fixed Effect Model (FEM). The second regression model yields the same results, indicating that FEM is also the appropriate model for the second equation.

### Classical Assumption Test Results

Before conducting regression analysis and hypothesis testing, classical assumption tests were performed. Based on the data processing, the results are summarized in Table 3 below.

**Table 3. Classical Assumption Test Results**

	Model I	Model II
	VIF	VIF
Profitability	1.212	
Leverage	1.282	
Transfer Pricing	1.061	
Size	1.499	1.478
PROF*SIZE		1.147
LEV*SIZE		1.297
TP*SIZE		1.075
White-Square Prob X <sup>2</sup>	0.867	0.981
Durbin Watson	2.065	2.125

For both the first and second regression models, all independent variables have Variance Inflation Factor (VIF) values below 10. This indicates that the independent variables included in the two regression equations are free from multicollinearity, allowing further statistical analysis to be conducted.

In the autocorrelation test, both regression equations produce Durbin–Watson (DW) values greater than the critical threshold, indicating the absence of autocorrelation. Furthermore, the heteroskedasticity test using the White test shows that the Chi-square probability values for both models are well above 0.05. Therefore, it can be concluded that the two regression models analyzed are free from autocorrelation and heteroskedasticity issues.

### Hypothesis Testing Results

After all testing procedures were fulfilled, hypothesis testing was conducted. The results presented in Table 4 indicate that profitability has a significant effect on tax avoidance. In the first equation, the regression coefficient for profitability is negative at  $-1.163$ , while in the second equation a different result is obtained, showing a positive effect of profitability with a coefficient of  $9.456$ . In both the first and second equations, the probability values are less than  $0.05$ , indicating that profitability has a statistically significant effect on tax avoidance.

In both regression equations, the leverage variable consistently shows no significant effect on tax avoidance ( $p > 0.05$ ). A similar result is also found for the transfer pricing variable. Meanwhile, although firm size has positive regression coefficients of  $0.187$  in the first equation and  $0.095$  in the second equation, the probability values exceed  $0.05$ . Therefore, it can be concluded that firm size does not have a significant effect on tax avoidance practices undertaken by company management.

**Table 4. Hypothesis Testing Results**

<b>Model</b>		<b>Coefficient</b>	<b>t-stat</b>	<b>Prob</b>	<b>Result</b>
Pers I	Constant	-2.034	-1.646		
	Profitability	-1.163	-5.029	0.000	Accepted
	Leverage	-0.004	-0.554	0.582	Rejected
	Transfer Pricing	-0.011	-0.213	0.832	Rejected
	Size	0.187	1.934	0.059	Rejected
	R-square	0.606			
	F-stat	0.000			
Pers II	Constanta	-0.826	1.219		
	Profitability	9.456	-2.124	0.039	Accepted
	Leverage	-1.074	-1.246	0.219	Rejected
	Transfer Pricing	-1.752	0.554	0.582	Rejected
	Size	0.095	-1.343	0.186	Rejected
	PROF*SIZE	-0.834	2.117	0.039	Rejected
	LEV*SIZE	0.075	1.230	0.225	Rejected
	TP*SIZE	0.139	1.220	0.220	Rejected
	R-square	0.668			
	F-stat	0.000			

At the moderation testing stage, the results indicate that firm size does not moderate the relationship between profitability, leverage, or transfer pricing and tax avoidance ( $p > 0.05$ ). However, the overall model remains appropriate, as indicated by F-prob values below 0.05. These findings suggest that the inclusion of firm size as a moderating variable may not be entirely suitable, which constitutes a limitation of this study.

## DISCUSSION

### The Effect of Profitability on Tax Avoidance

We found that as operating profits increase, the likelihood of tax avoidance decreases. Theoretically, companies with high profitability should have a greater incentive to engage in tax avoidance, as higher profits mean a larger tax base and tax burden. Shareholders tend to encourage management to reduce tax burdens to increase net income and returns. However, management must also consider compliance, reputation, and the risk of sanctions that can harm the company in the long term. These findings align with research by Gabriella & Lin (2024), which found that profitability, as measured by Return on Assets (ROA), has a negative and significant effect on tax avoidance. These findings indicate that the higher a company's profitability, the lower its tendency to engage in tax avoidance. Companies with strong financial performance tend to be more compliant with tax obligations and avoid the reputational risks and sanctions that can arise from tax avoidance practices.

### **The Effect of Leverage on Tax Avoidance**

The results of testing the second hypothesis reveal that leverage does not affect tax avoidance in food and beverage companies listed on the IDX during the 2020–2024 period. Debt is closely related to agency theory, which is used to understand the relationship between lenders and managers, where managers act as agents and lenders as principals (Gabriella & Lin, 2024). The use of debt can reduce agency conflicts because managers are bound by loan contracts (debt covenants) that restrict opportunistic behavior. In addition, according to tax theory, interest expenses are recognized as deductible expenses that reduce taxable income (tax shield). Therefore, companies with high leverage levels already obtain tax benefits naturally, reducing the need for additional tax avoidance practices.

Furthermore, the government has implemented tax regulations stipulating that the debt-to-equity ratio within an accounting period must not exceed a predetermined threshold of 4:1. If this ratio is exceeded, interest expenses must be recalculated for tax purposes in accordance with the Regulation of the Director General of Taxes No. 25/PJ/2017 (Susanti, 2019). Consequently, companies are reluctant to take on excessive debt as a means of tax avoidance.

These findings are consistent with the study by Gabriella and Lin (2024), which found that leverage does not have a significant effect on tax avoidance. This suggests that the level of corporate debt usage is not a determining factor in tax avoidance practices among food and beverage companies. The relatively moderate average Debt-to-Equity Ratio (DER) indicates that companies do not rely on interest expenses as a primary instrument to reduce tax liabilities.

### **The Effect of Transfer Pricing on Tax Avoidance**

The results of testing the third hypothesis show that transfer pricing does not affect tax avoidance in food and beverage companies listed on the IDX during the 2020–2024 period. Theoretically, transfer pricing is often viewed as a tool used by multinational companies to shift profits to jurisdictions with lower tax rates, which, from an agency theory perspective, reflects opportunistic managerial behavior aimed at minimizing tax burdens and maximizing after-tax profits for shareholders.

However, the insignificant effect of transfer pricing on tax avoidance in this study can be explained by several factors. These include increasingly stringent tax regulations, particularly the implementation of PER-29/PJ/2017, which requires more transparent transfer pricing documentation and limits opportunities for price manipulation; the characteristics of food and beverage companies listed on the IDX, which are largely domestically oriented and therefore engage in limited cross-border transactions; and the relatively high level of compliance among publicly listed companies due to stronger public and regulatory oversight.

This finding is consistent with the study by Ghasani et al. (2021), which states that transfer pricing does not have a significant effect on tax avoidance.

This indicates that transfer pricing practices have not been optimally utilized by companies as a tool for tax avoidance. This condition may be attributed to increased government oversight and stricter tax regulations that restrict companies' ability to manipulate transfer prices. In addition, tax policies such as tax amnesty programs and ongoing changes in fiscal policy further strengthen supervision of related-party transactions, making transfer pricing a less dominant factor in reducing corporate tax burdens.

#### **The Moderating Effect of Firm Size on the Relationship between Profitability and Tax Avoidance**

The moderation test results show that the interaction between profitability (ROA) and firm size does not have a significant effect on tax avoidance. From an agency theory perspective, the insignificant moderating role of firm size suggests that whether a company is large or small does not strengthen or weaken management's tendency to exploit profitability for tax avoidance purposes. This indicates that potential agency conflicts arising from high profitability can be effectively controlled by existing monitoring mechanisms in both large and small firms.

In large companies, external oversight from investors, regulators, and auditors tends to be more stringent, thereby limiting opportunistic managerial behavior. Meanwhile, in smaller companies, limited resources and operational complexity constrain management's ability to implement aggressive tax avoidance strategies. Therefore, firm size does not function as a moderating factor in the relationship between profitability and tax avoidance.

#### **The Moderating Effect of Firm Size on the Relationship between Leverage and Tax Avoidance**

The test results indicate that the interaction between leverage (DER) and firm size has a significant effect on tax avoidance. From an agency theory perspective, the significant moderating role of firm size suggests that in larger companies, the use of debt provides management with greater flexibility in managing tax policies. The complexity of operations and larger organizational structures enable management to utilize leverage as a means of tax savings through interest expenses (tax shield). In contrast, smaller companies face limitations in business scale and more direct oversight, which restrict management's ability to use debt as a tool for tax avoidance. Thus, firm size plays a role in strengthening the relationship between leverage and tax avoidance.

#### **The Moderating Effect of Firm Size on the Relationship between Transfer Pricing and Tax Avoidance**

The results show that the interaction between transfer pricing (TP) and firm size does not have a significant effect on tax avoidance. From an agency theory perspective, transfer pricing is often regarded as a form of opportunistic managerial behavior aimed at maximizing after-tax profits for shareholders by shifting income to entities with lower tax rates. However, the findings of this study indicate that large companies do not necessarily use transfer pricing as a tax avoidance instrument. This can be explained by two main factors. First, large

companies are subject to higher levels of scrutiny from regulators and the public. The larger the company, the greater the demand for transparency, including in transfer pricing reporting. Second, tax regulations in Indonesia have become increasingly stringent, particularly following the issuance of PER-29/PJ/2017 on transfer pricing documentation. Large companies, which are often the primary targets of tax audits, tend to comply with these regulations to avoid administrative and criminal sanctions.

## **CONCLUSION**

In line with the results of the hypothesis testing, which found that the higher a company's profit-generating ability, the higher its tax avoidance practices. Our research found that leverage, transfer pricing policies, and company size did not influence changes in a company's tax avoidance practices. Furthermore, our research found that company size did not moderate the relationship between profitability, leverage, and transfer pricing and tax avoidance practices in primary consumer sector companies listed on the Indonesia Stock Exchange. We acknowledge that this research still has several limitations. Among the limitations are the existence of variables that are more suitable as moderating variables, such as proxies for good corporate governance, industry type, business sector, and so on. Furthermore, we did not address the issue of endogeneity.

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